

**DEPARTMENT OF TECHNOLOGY &  
COMMUNICATION SERVICES  
OFFICE OF THE CABLE ADMINISTRATOR  
MARCH 2001**

March 2001

The County Council and County Executive  
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

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OFFICE OF THE CABLE ADMINISTRATOR

and our report is submitted herewith. The scope of our examination related specifically to a follow-up review of the recommendations made in our June 1996 report on the Public Service Communications Fund to determine the current conditions related to those recommendations. Of the four recommendations in the June 1996 report, one was implemented, two were partially implemented, and one was started, but not completed. We have updated the recommendations based on current conditions. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed by the Cable Administrator, the Director of the Department of Technology & Communication Services and the Chief Administrative Officer. We wish to express our gratitude to the department for the cooperation and assistance extended to us during the course of this engagement.

Ronald S. Weinstein, C.P.A.  
County Auditor

Brenda S. Dean, C.P.A.  
Auditor-in-Charge

## INTRODUCTION AND SCOPE

Subtitle 4 of Title 14 of the Howard County Code is known as the Howard County Cable Television Systems Franchise Act. This act provides for payments to the County of 5% of the franchisee's gross revenues derived from the operation of its cable system within the County during the period of its franchise. This franchise fee is due to the County for the preceding quarter within 30 calendar days of the end of that quarter. The County Council has the sole authority to grant franchises, authorize the execution of franchise agreements, modify franchise agreements, renew franchises, revoke franchises, and authorize the transfer of franchises.

In June 1996, the Office of the County Auditor issued a report related to selected activities of the Public Service Communications Fund which was discontinued as a separate restricted fund in Fiscal Year 2000. The revenues and costs that were previously included in that fund are now part of the General Fund. The Office of the Cable Administrator is now part of the Department of Technology & Communication Services. The scope of the original audit related to examining the revenues, expenditures, and fund balance of the Public Service Communications Fund for Fiscal Year 1995 and the budgeted expenditures for Fiscal Year 1996. As part of the audit process, we perform follow-up reviews after an audit is completed to determine the current status of the original report recommendations and to review existing operations.

Of the four original recommendations, one was implemented, two were partially implemented, and one was not implemented. Based on the current procedures and recent discussions with Comcast representatives, we have included three recommendations which address the issues still outstanding.

Our findings and recommendations are presented in the pages that follow.

## **FOLLOW-UP OF JUNE 1996 RECOMMENDATIONS**

We performed an audit of the Public Service Communications Fund and issued a report in June 1996. The contents of that report included four recommendations for those areas that we felt needed improvement. The scope of this follow-up is to examine the status of implementation of those recommendations which are repeated below along with the Administration's response to each recommendation that was included in the original audit report.

### Recommendation #1 (1996):

*For Fiscal Year 1996 and all future years, the Department of Finance accrue revenue from Mid-Atlantic Cable in the Public Service Communications Fund.*

At the time of our audit the Administration's Response was as follows:

We concur. For FY 1996 and all future years, if the Department does not receive payments from Mid-Atlantic Cable by the end of each fiscal year, the revenue will be accrued based on the last remittance. An adjustment will be made only if the actual payment received is materially different from that of the accrued.

### Current Status:

This recommendation was made because Mid-Atlantic Cable was not remitting the quarterly franchise fee in a timely manner. This is no longer an issue since Mid-Atlantic Cable was acquired by Comcast Cablevision and payments are now being made within 30 calendar days of the end of the preceding quarter as required by the Howard County Code.

### Recommendation #2 (1996):

*In accordance with Section 14.412 of the Howard County Code, both cable franchisees file with the County financial statements audited by a certified public accountant.*

At the time of our audit the Administration's Response was as follows:

The annual reports submitted by the cable companies are certified as having been prepared or reviewed by a certified public accountant. I am gathering information to prepare an RFP for audit services.

At the time of our audit the Auditor's Response was as follows:

Having financial statements prepared or reviewed by a certified public accountant is not the same as having them audited by a certified public accountant. An audit is a more thorough process by an independent group which attests to the records as prepared for management. For example, the

County's financial records are prepared and reviewed by a certified public accountant (the Director of Finance). This does not negate the County from the obligation for an audit of those records.

Current Status:

Comcast Cablevision does provide audited financial statements to the Cable Administrator, however, these cover all of Comcast's operations corporate-wide and do not segregate the activity of the local franchisee. The cable franchise agreement is between Howard County, Maryland, and Comcast Cablevision of Howard County, Inc., a Maryland corporation. We believe the requirement for a local audit is important in order to determine that the amount of franchise fee collected is accurate.

On February 1, 2001, a conference call took place between representatives of Comcast Cablevision, the Cable Administrator, and the County Auditor's Office. Comcast representatives indicated that the local franchises do not obtain separate audited financial statements but several counties have received a separate audit of gross receipts. Comcast offered to provide a gross receipts audit performed by a certified public accountant for its Howard County operations. Specifically, Comcast offered to include with its annual report for the year ending December 31, 2000, the gross receipts audit, audited financial statements for the parent company, and an unaudited franchise financial statement for the local Comcast office. We believe this would be the most useful information for verifying franchise fee payments to Howard County. We therefore recommend that:

1. *A gross receipts audit be obtained by Comcast Cablevision and sent to Howard County annually along with audited financial statements for the parent company and the unaudited franchise financial statement for the local Comcast office.*

Administration's Response:

As agreed upon in the conference call referenced in the Auditor's report, Comcast's annual reports (starting with the fiscal year ending December 31, 2000) will include a gross receipts audit, an auditor's statement, and an unaudited franchise fee financial statement that lists the revenue items comprising the franchise fee payments to Howard County. Comcast's annual report for the year ending December 31, 2000, is due to Howard County by March 31, 2001.

2. *Howard County Code Section 14.412 be amended to reflect this change.*

Administration's Response:

The Administration concurs with this recommendation. The County Auditor and the Cable Administrator plan to meet with the Legislative Coordinator to implement the proposed revision.

Recommendation #3 (1996):

*The Director of Finance, in conjunction with the Cable Administrator, the Purchasing Chief, and the County Auditor, prepare a request for proposal for an audit of the cable franchisee's gross revenues.*

At the time of our audit the Administration's Response was as follows:

This is in the preliminary stages.

Current Status:

This recommendation was made because the franchise fee is derived from gross revenues and an audit of these gross revenues is needed to ensure that the County is receiving the correct franchise fee amount. Section 14.412(e) of the Howard County Code states that "the director of finance may inspect and audit any and all books and records of the franchisee and recompute any amounts determined to be payable under the franchise. The cost of the audit will be borne by the franchisee if the annual payment to the county is increased by more than 5% as a result of the audit." An audit of gross revenues has never been conducted.

This recommendation will be implemented if the gross receipts audit noted in Recommendation #1 is obtained by Comcast Cablevision and sent to the County, therefore, Recommendation #3 is no longer required.

Recommendation #4 (1996):

*The Cable Administrator require that the Board of Education and Howard Community College submit a statement showing all expenditures related to their cable grant, along with backup documentation for items purchased.*

At the time of our audit the Administration's Response was as follows:

This requirement will be incorporated in the grant contract for FY 1997.

Current Status:

The Howard Community College received a restricted grant of \$355,060 and the Board of Education received a restricted grant of \$362,613 in Fiscal Year 2000. These two amounts combined represent 80% of the Cable Administrator's total budget. The supporting documentation submitted by the Community College to the Cable Administrator was in-depth and complete, however, the supporting documentation submitted by the Board of Education was not complete. It only covered \$226,756 of the total grant.

We therefore continue to recommend that:

3. *The Cable Administrator obtain in-depth and complete documentation to support the full amount of each grant every year to ensure that these funds are being used for their restricted purposes. This should be communicated to the Board of Education so adequate documentation is provided.*

**Administration's Response:**

\_\_\_\_\_ The missing document has been obtained from the Board of Education's accounting officer and forwarded to the County Auditor's office. The figures were personnel costs such as salaries and benefits. Those figures are maintained separately from production related costs for the TV facility. In the future, the Cable Administrator will notify both offices to ensure that documentation of grant expenditures is complete.

**CURRENT CABLE OPERATIONS**

During the course of our review, we examined revenues received from the franchisee, Comcast Cablevision, and found that they are being received in a timely manner as required by the Howard County Code. Over the past five fiscal years, franchise fees paid to the County have nearly doubled from \$1,270,750 in Fiscal Year 1996 to \$2,153,241 in Fiscal Year 2000. The Office of the Cable Administrator oversees and evaluates the performance of the cable franchisee, advises the County Executive and County Council on cable matters, handles all paperwork related to the franchise agreements, and addresses any cable-related problems. The office also examines and makes recommendations on the request for cable grant funding from the Board of Education and Howard Community College. The Cable Administrator's budget for Fiscal Year 2001 is \$906,739. It consists of \$107,059 in salaries, wages and fringe benefits, \$47,307 in contractual services, \$3,500 in supplies and materials, \$5,200 for business and education expenses, \$1,000 for capital outlay, and \$742,673 for other operating expenses which covers the grants to the Board of Education and the Community College along with several other small grants. A random review of expenditures in Fiscal Year 2000 indicated they are in order and properly approved.

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